REPUBLICAN + TAX POLICY

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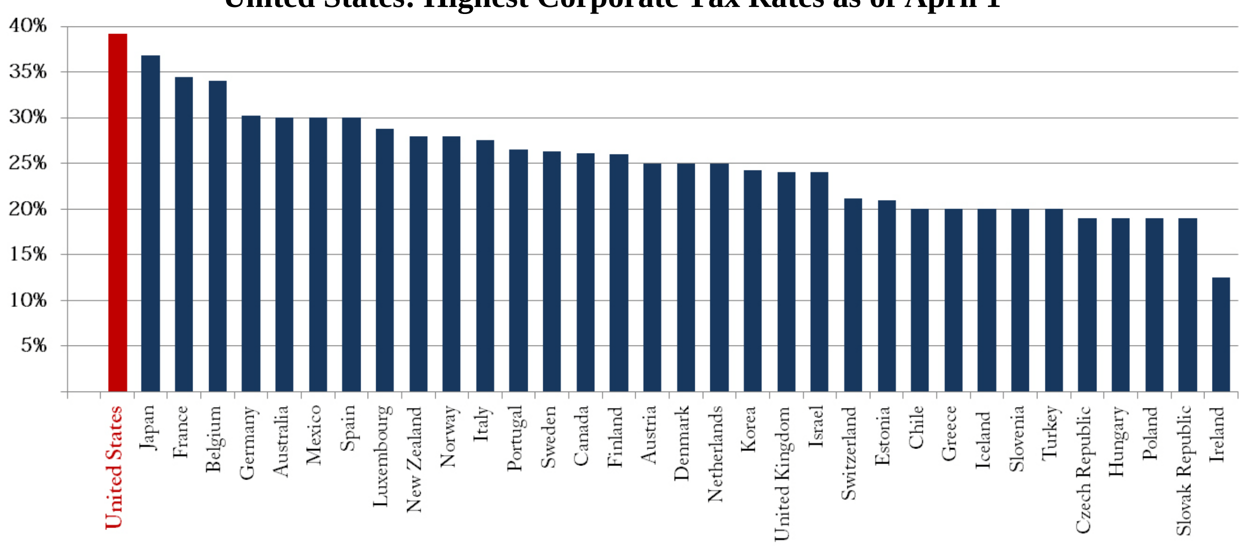
April 1st is No Joke for U.S. Workers

Beginning next week, the United States will have the highest corporate tax rate in the world at a combined rate of 39.2 percent. This uncompetitive tax harms workers, consumers, job creation, investment, and innovation.

April 1st – U.S. Corporate Tax Rate Becomes the World's Highest

The United States has not lowered its corporate income tax rate in more than a quarter of a century – since the Tax Reform Act of 1986. After that Act, the United States had the sixth-lowest corporate income tax rate in the Organisation for Economic Co-operation and Development. Since then, the rest of the world has realized the negative consequences of high corporate income tax rates and gradually lowered theirs.

United States: Highest Corporate Tax Rates as of April 1st



On April 1, the United States will pass Japan as the nation with **the world's highest corporate income tax rate**. Japan will gradually lower its rate over the next few years, but the drop on

April 1st to 36.8 percent will be enough to put the United States in the top spot. When Japan announced it was lowering its corporate tax rate, Prime Minister Naoto Kan said that the goal was to “spur companies to invest domestically, expand employment and raise wages [which will] stimulate the domestic economy [and] support growth.”

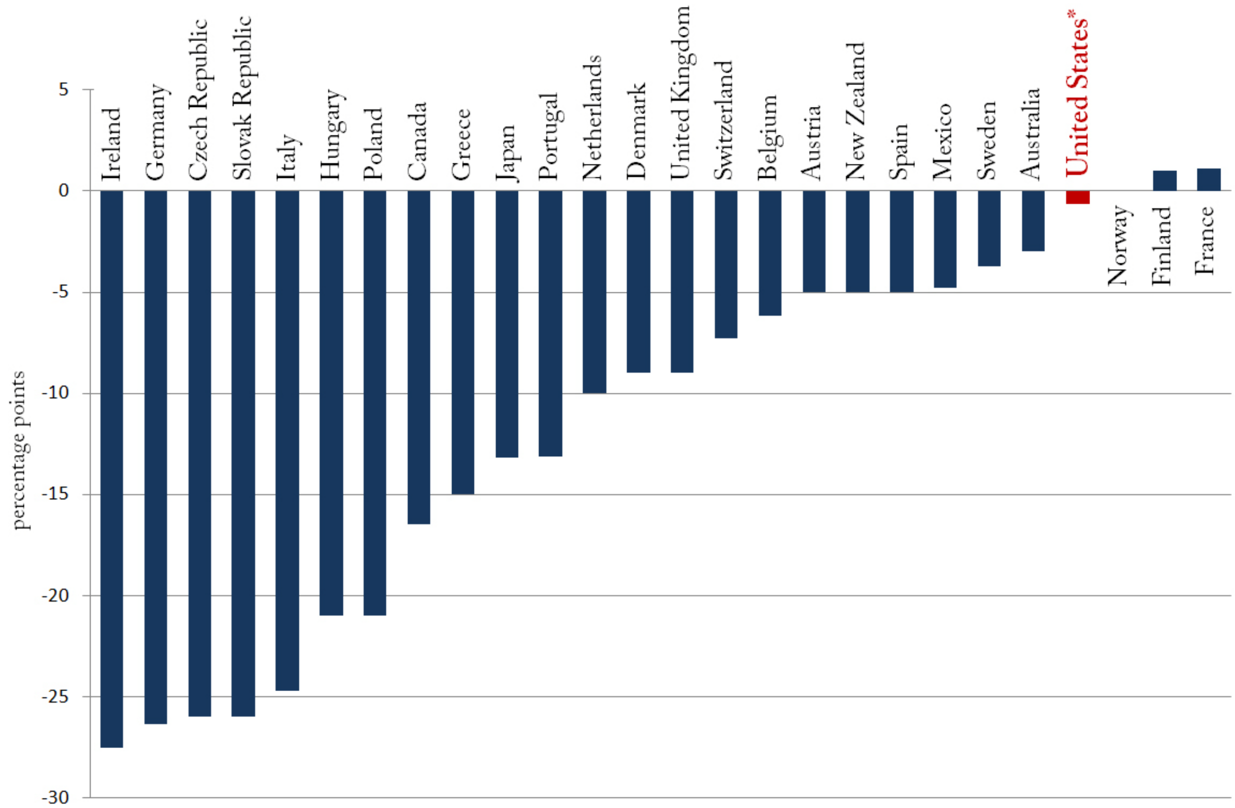
Earlier this year Canada lowered their corporate tax rate to 15 percent. This month, the United Kingdom announced that it would lower its corporate tax rate in April from 26 percent to 24 percent with further reductions on the way. About the rate cut, United Kingdom’s Chancellor of the Exchequer said it is, “a headline rate that is not just lower than our competitors, but dramatically lower.”

Higher Corporate Income Taxes Hurt the Middle Class

All too often, Democrats regard corporations as an unlimited source of tax revenue. Democrats believe that if the government increases the tax rate on corporations, they will give the government more tax revenue with no negative consequences. It does not work that way since taxes on corporations have real-world consequences.

- **Workers bear a large burden of the tax.** Discussions of the corporate tax sometimes assume that a tax on corporations will fall on the owners of the corporation. To the contrary, a Treasury Department survey of economic studies showed that workers actually “bear a substantial burden” from such taxes. A CBO study found that more than 70 percent of the burden of the corporate tax fell on workers.
- **Consumers pay some of the tax.** While the corporate tax harms the middle class mostly through employment, it also hurts them as consumers since a portion of the tax can be passed on to consumers in the form of higher prices for goods and services.
- **Retirees and savers pay some of the tax.** Corporate tax increases hit middle-class families because many of them own stock directly or as a part of their retirement savings. A recent study by the Tax Policy Center shows that 27 percent of American households will have their taxes increased under President Obama’s fiscal year 2013 tax proposals, despite his promise not to raise taxes on the middle class. Because the majority of Americans own some type of stock, the president’s tax hikes on some corporations will be passed on to the middle class.
- **The tax hikes reduce investment and business creation.** A reduction in investment depresses future job creation. A 2008 study by economists at Harvard and the World Bank found that higher corporate income taxes were strongly associated with lower domestic investment, lower foreign direct investment, and less entrepreneurship.
- **The corporate tax harms innovation.** A 2011 study by two UCLA economists found the corporate tax has such negative effects on innovation and capital that it could actually “undo the benefits of federal support for [research and development].”
- **Profits Remain Overseas.** The United States’ high corporate tax rate has led to approximately $1 trillion being sheltered by U.S. companies overseas. It also has led to unsound temporary tax measures to repatriate profits to the United States. Lowering the tax rate could reverse the trend of shrinking corporate tax revenue: in 2000, corporate revenue was 10.2 percent as a share of all federal revenue; in 2010 that share had declined to 8.9 percent.

Change to Average Corporate Tax Rate: 1993-Present



*The U.S. has not changed its federal rate, though the combined federal/state rate has decreased slightly due to state tax cuts.

Obama Would Increase Taxes on Investment Even More

Despite having the world's highest corporate income tax rate, President Obama is not satisfied. He has proposed the following additional taxes on corporate investment.

- Tripling the current dividend tax rate by taxing dividend income at regular individual tax rates;
- Increasing the rate on capital gains from 15 percent to 20 percent;
- Imposing an international minimum tax on American companies doing business internationally. The president has adopted this new minimum international tax policy instead of a territorial tax system endorsed by his own Jobs Council and Fiscal Commission;
- Imposing a "Buffett Rule" that would require Americans, including many small businesses, earning more than $1 million per year to pay at least 30 percent of their income in taxes. Many of these taxpayers earn a large portion of their income through investments. The Senate is expected to vote on a similar bill by Senator Whitehouse in April;
- In all, the president's fiscal year 2013 budget raises corporate taxes by $350 billion;
- The president also put forward a corporate tax outline that proposes $250 billion in new taxes on American corporations.

As the United States assumes its position as the country with the highest corporate tax rate in the world, President Obama fails to recognize that the corporate income tax harms workers, consumers, job creation, investment, and innovation. The Obama Administration should reverse its calls for increased taxes on business investment, and it should instead call for common-sense corporate tax reform without additional gimmicks such as the international minimum tax.